

METRO TRANSIT SYSTEM

An Enterprise Fund of the
City of Madison, Wisconsin

FINANCIAL STATEMENTS

Including Independent Auditors' Report

December 31, 2009 and 2008

METRO TRANSIT SYSTEM

An Enterprise Fund of the City of Madison, Wisconsin

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Common Council
Metro Transit System
Madison, Wisconsin

We have audited the accompanying statements of net assets of Metro Transit System, an enterprise fund of the City of Madison, Wisconsin as of December 31, 2009 and 2008, and the related statements of revenues, expenses and changes in net assets and statements of cash flows for the years then ended. These financial statements are the responsibility of Metro Transit System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Metro Transit System and are not intended to present fairly the financial position of the City of Madison, Wisconsin and the changes in its financial position and its cash flows in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Metro Transit System as of December 31, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the overall City of Madison's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants, including those systems applicable to the Metro Transit System. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

To the Honorable Mayor and Common Council
Metro Transit System

The Management's Discussion and Analysis on pages 3 through 15 is not a required part of the financial statements but is supplementary information required by accounting principals generally accepted in the United States of America. GASB reporting standards limit the disclosure of condensed financial statements in the Management's Discussion and Analysis in this instance to three years. Management has elected to include more information in the Management's Discussion and Analysis than is required by the standards. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Metro Transit System has not presented the Schedule of Funding Progress for the post-employment benefit program that accounting principles generally accepted in the United States of America require to supplement, although not be part of, the financial statements. We note that this information is included in the City of Madison's financial statements.

Our audits were conducted for the purpose of forming opinions on the financial statements. The supplemental information as identified in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Baker Tilly Virchow Krause LLP

Madison, Wisconsin
June 23, 2010

METRO TRANSIT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

The following report of Metro Transit's activities and financial performance provides the reader with an introduction and overview to the financial statements for the fiscal year ended December 31, 2009 and 2008.

The information contained in this report should be considered in conjunction with the information contained in the other historical summaries and activities and financial performance section of this report.

Mission

It is the mission of Metro Transit (Metro), through the efforts of dedicated, well-trained employees to provide safe, reliable, convenient and efficient public transportation to the citizens and visitors of the Metro service area.

Metro provides extensive fixed route and ADA paratransit service in a 72 square mile regional service area with a population of 237,433 and also provides contributions to Dane County for the delivery of Group Access Services (providing transportation of the elder to meal-sites), Exceptional Rides Services and RSVP programs in the Metro service area. Metro is an Enterprise Fund of the City of Madison. Local investment partners are the Cities of Fitchburg, Middleton, and Verona, Town of Madison, Madison Area Technical College, Madison Metropolitan School District, the University of Wisconsin-Madison and the Village of Shorewood Hills. Unlimited ride pass program participants include the UW-Madison, MATC, Edgewood College, St. Mary's and Meriter Hospitals and the City of Madison.

Annual Overview

In 2009, Metro's bus ridership was the highest in 30 years, and the 2nd highest on record! The year ended with 13,588,426 rides, up 1.4% from 13,405,714 in 2008. The highest ridership in Metro's history was 13,953,237 in 1979. This was especially noteworthy given the 33% increase in cash fares, and given that transit systems across the United States in Metro's peer groups (population & service size) dropped between 4 and 7% due to falling gas prices and the economic recession.

Related to this, transit passenger revenues were also up 9.9% from \$9,402,394 in 2008 to \$10,329,265 in 2009.

It was a very good year for Metro Transit for other reasons as well. In addition to ridership and passenger revenues being up, preventable and chargeable accidents were down to a 5 year low; related to the safety improvements, Metro earned an additional \$204,000 safety dividend from its insurance company; a new security initiative at the South Transfer Point reduced police incidents by 50%; a new low-income bus pass was established on a pilot basis in April, and by the end of the year, 300 of these passes a month were being sold to eligible individuals; and a new position was funded for 2009 in the Marketing Department to establish a smaller employer unlimited ride pass program.

See accompanying independent auditors' report.

METRO TRANSIT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

On the other hand, a number of factors contributed to Metro paying a record amount of overtime in 2009 causing unfavorable media attention in early 2010. At the top of the list of contributing factors is the increasing use of FMLA, which jumped from 20,000 hours in 2008 to 28,000 hours in 2009, a 40% increase in one year. Going 5 years back, Metro used about 6,000 hours of FMLA in 2004. Clearly, this important medical leave benefit is impacting overtime, and it is anticipated that a number of actions will be taken in 2010 to address this. Although an independent audit done the year before showed Metro among the most efficient of its peers, averaging \$2.92 operating cost per passenger trip in 2006, 26% below the peer average of \$3.97, the overtime issue negatively impacts the perception of efficiency in our community.

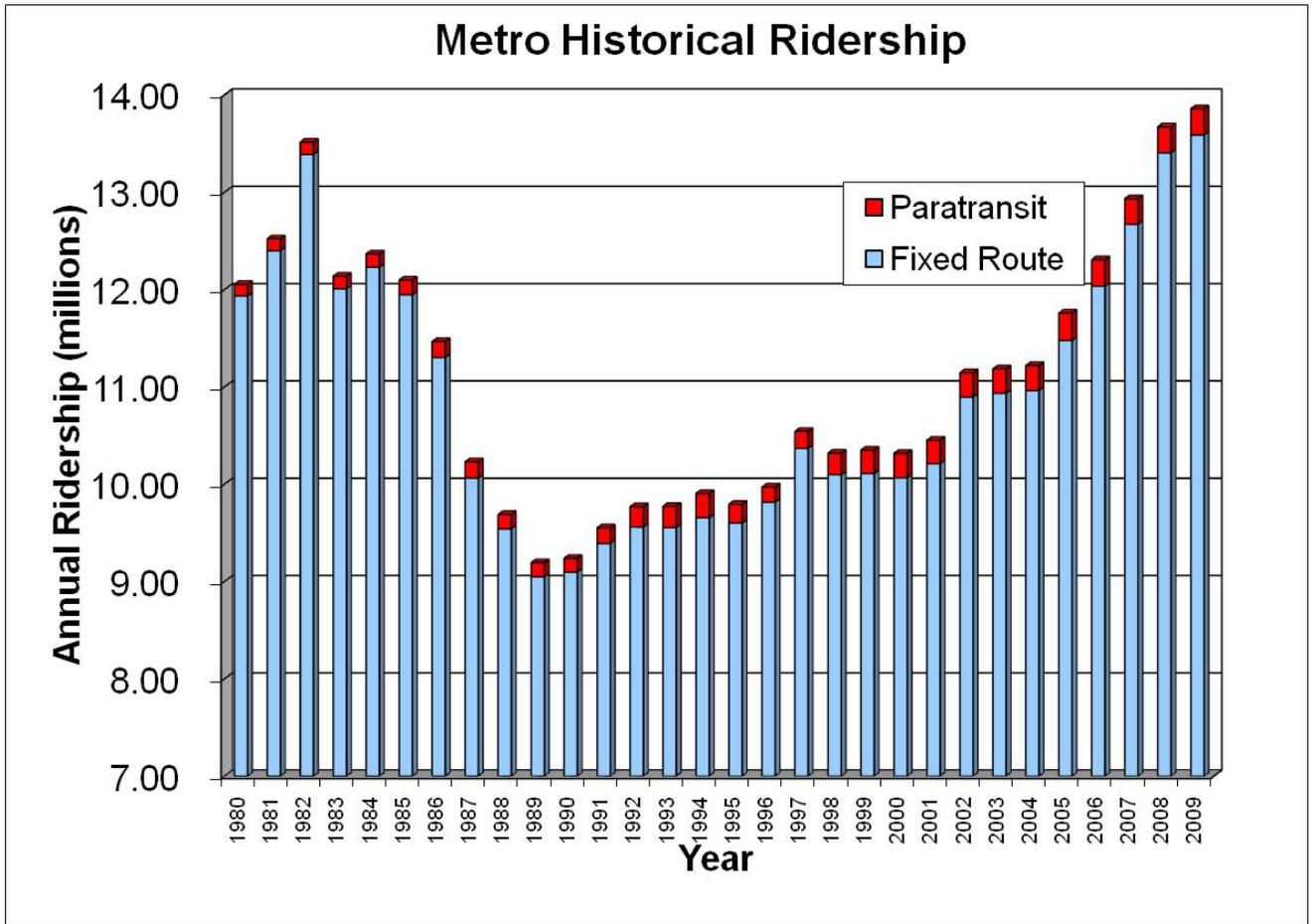
More detail on some of the highlights are as follows:

- Metro Transit had 65 preventable and chargeable bus accidents in 2009, a 5 year low, and a 37% drop from 2008. A number of factors contributed to this including refresher training for all drivers, better weather compared to the record 2007/08 winter, and the increasing use of bus video for training purposes. As a result of this good performance, Metro received an additional credit of \$204,000 from Transit Mutual Insurance early in 2010.
- The fare increase in 2009 was accompanied by additional funding for Metro security at Transfer Points. A pilot project at the South Transfer Point was developed and implemented with the cooperation of the Police Department, MMSD, and the Mayor's office. Police officers were trained on bus scheduling and security issues and Metro paid for additional coverage at the South Transfer Point during the after school hours in warmer months primarily, causing a drop of police incidents from 216 in April-October 2008 to 112 for the same period of 2009. This program is being expanded to provide additional coverage at other transfer points.
- A new low-income bus pass was developed on a pilot basis in 2009 as part of the overall bus fare increase that went into effect in April. The pilot program allowed a passenger to show a "Quest" card, indicating eligibility for food stamps, and in turn provided a 50% discount off the price of a regular monthly pass. Sales started out slowly, at about 100-150 per month, but by the end of the year had climbed and leveled off to 300 passes sold per month at the 3 authorized outlets, including Metro Transit, the City Treasurer's Office, and the Dane County Job Center. A permanent low-income bus program was developed in 2009 for consideration in future budgets. The program is continuing in 2010 with a funding level of 300 passes per month.
- Metro received nearly \$10 million in economic stimulus funding in 2010, and based on Council approval, used the 10% maximum amount (\$950,000) to help support the operating budget on a one-time basis. The bulk of the remaining funds will be used to purchase 14 new hybrid buses, 5 low-floor accessible paratransit vehicles, and improved security systems at Metro's four transfer points. All of these capital purchases will be at 100% federal funding with no required local match.
- Metro finished 2009 slightly under budget and added \$389,000 to the contingency reserve, raising that level to \$867,000. Metro's goal is to bring the contingency level up to \$2 million in the next few years, an amount appropriate for a \$50 million operating budget.

See accompanying independent auditors' report.

METRO TRANSIT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT



See accompanying independent auditors' report.

METRO TRANSIT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

2009 Financial Highlights

A breakdown of revenues and expenses by mode is shown in the following chart.

**Madison Metro Transit
Income Statement
For the Year Ended December 31, 2009**

	All Modes		Fixed Route		Paratransit	
	Actual 2009	Budget 2009	Actual 2009	Budget 2009	Actual 2009	Budget 2009
Revenue						
Farebox	\$ 1,333,841	\$ 1,895,215	\$ 1,297,715	\$ 1,838,359	\$ 36,126	\$ 56,856
Passes & Tickets	\$ 4,337,971	\$ 4,544,980	\$ 4,074,663	\$ 4,272,281	\$ 263,308	\$ 272,699
Unlimited Ride Programs	\$ 4,646,767	\$ 4,773,100	\$ 4,619,860	\$ 4,725,369	\$ 26,907	\$ 47,731
Passenger Revenue	\$ 10,318,579	\$ 11,213,295	\$ 9,992,238	\$ 10,836,009	\$ 326,341	\$ 377,286
County Programs	\$ 3,494,152	\$ 3,461,900	\$ 19,280	\$ 19,280	\$ 3,474,872	\$ 3,442,620
Federal Operating Assistance	\$ 5,824,984	\$ 5,823,900	\$ 5,090,826	\$ 5,241,510	\$ 734,158	\$ 582,390
State Operating Assistance	\$ 17,158,400	\$ 17,158,400	\$ 15,074,156	\$ 14,927,808	\$ 2,084,244	\$ 2,230,592
Local Subsidies	\$ 3,142,168	\$ 3,023,773	\$ 2,778,441	\$ 2,721,396	\$ 363,727	\$ 302,377
Other Subsidies	\$ 19,136	\$ 9,000	\$ 19,136	\$ 9,000	\$ -	\$ -
Advertising	\$ 392,980	\$ 300,000	\$ 392,980	\$ 300,000	\$ -	\$ -
Miscellaneous	\$ 105,435	\$ 138,900	\$ 105,435	\$ 138,900	\$ -	\$ -
Total Revenue	\$ 40,455,834	\$ 41,129,168	\$ 33,472,492	\$ 34,193,902	\$ 6,983,342	\$ 6,935,266
Expenditures						
Salaries	\$ 24,758,988	\$ 24,640,918	\$ 23,148,493	\$ 22,916,054	\$ 1,610,495	\$ 1,724,864
Benefits	\$ 10,938,181	\$ 10,705,072	\$ 10,270,742	\$ 10,062,768	\$ 667,439	\$ 642,304
Utilities/Telephone	\$ 603,336	\$ 954,800	\$ 573,254	\$ 887,964	\$ 30,082	\$ 66,836
Repairs & Maint B&G	\$ 96,484	\$ 100,400	\$ 93,484	\$ 93,372	\$ 3,000	\$ 7,028
Repairs & Maint Equip	\$ 262,880	\$ 215,400	\$ 219,099	\$ 200,322	\$ 43,781	\$ 15,078
Rentals	\$ 167,472	\$ 106,800	\$ 155,549	\$ 99,324	\$ 11,923	\$ 7,476
Employee Services	\$ 53,741	\$ 56,200	\$ 42,567	\$ 52,266	\$ 11,174	\$ 3,934
Insurance & Financial	\$ 761,093	\$ 1,006,800	\$ 680,640	\$ 936,324	\$ 80,453	\$ 70,476
Purchased Transportation	\$ 4,670,750	\$ 4,660,000	\$ -	\$ -	\$ 4,670,750	\$ 4,660,000
Other Services	\$ 345,377	\$ 389,200	\$ 338,472	\$ 361,956	\$ 6,905	\$ 27,244
Office Supplies	\$ 63,572	\$ 49,200	\$ 60,720	\$ 45,756	\$ 2,852	\$ 3,444
Equipment Supplies	\$ 1,042,585	\$ 1,083,700	\$ 1,003,351	\$ 1,007,841	\$ 39,234	\$ 75,859
Bldg & Const Supplies	\$ 75,861	\$ 22,000	\$ 73,861	\$ 20,460	\$ 2,000	\$ 1,540
Fuels, Oils & Lubricants	\$ 4,423,754	\$ 4,716,516	\$ 4,260,600	\$ 4,575,021	\$ 163,154	\$ 141,495
Other Supplies	\$ 191,972	\$ 188,900	\$ 180,852	\$ 175,677	\$ 11,120	\$ 13,223
Interdepartmental Charges	\$ 768,423	\$ 628,400	\$ 733,186	\$ 596,980	\$ 35,237	\$ 31,420
Depreciation	\$ 5,427,865	\$ 5,225,000	\$ 4,950,756	\$ 4,859,250	\$ 477,109	\$ 365,750
Interest & Bad Expenses	\$ 418,553	\$ 470,000	\$ 381,762	\$ 437,100	\$ 36,791	\$ 32,900
Total Expenses	\$ 55,070,887	\$ 55,219,306	\$ 47,167,388	\$ 47,328,434	\$ 7,903,499	\$ 7,890,872
Income(Deficit)	\$ (14,615,053)	\$ (14,090,138)	\$ (13,694,896)	\$ (13,134,531)	\$ (920,157)	\$ (955,607)
Less: Depreciation	\$ (5,427,865)	\$ (5,225,000)	\$ (4,950,756)	\$ (4,859,250)	\$ (477,109)	\$ (365,750)
Less: Unfunded OPEB	\$ (423,417)	\$ -	\$ (375,379)	\$ -	\$ (48,038)	\$ -
Debt	\$ 961,067	\$ 880,000	\$ 875,628	\$ 792,000	\$ 85,439	\$ 88,000
Plus Prpd lease local share	\$ (2,230)	\$ -	\$ (2,230)	\$ -	\$ -	\$ -
Fixed Assets	\$ 812,994	\$ 639,100	\$ 293,638	\$ 407,100	\$ 519,356	\$ 232,000
Federal Portion of Fixed Assets	\$ (747,937)	\$ (519,300)	\$ (228,581)	\$ (333,700)	\$ (519,356)	\$ (185,600)
Total Expenditures(City)	\$ 50,243,499	\$ 50,994,106	\$ 42,779,708	\$ 43,334,584	\$ 7,463,791	\$ 7,659,522
Added To/(Taken From)Reserves	\$ 388,710	\$ 311,436	\$ 349,584	\$ 280,292	\$ 39,126	\$ 31,144
Income/(Deficit) (City)	\$ (9,787,665)	\$ (9,864,938)	\$ (9,307,216)	\$ (9,140,681)	\$ (480,449)	\$ (724,257)

See accompanying independent auditors' report.

METRO TRANSIT SYSTEM

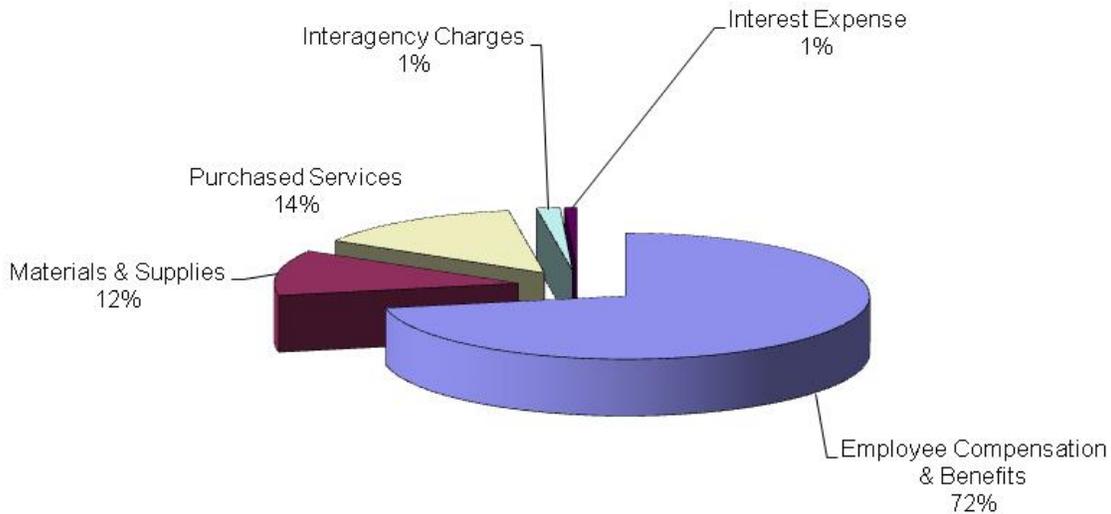
MANAGEMENT’S DISCUSSION AND ANALYSIS REPORT

Metro added to its contingent reserve in the amount of \$388,710 in 2009 to balance revenues and expenses. The following table shows Metro’s contingent reserve balances and changes in those balances over the past six years.

Year	Beginning Balance	Reserves +/-	Ending Balance
2004	\$2,146,767	(\$1,187,338)	\$959,429
2005	\$959,429	(\$690,000)	\$269,429
2006	\$269,429	(\$146,045)	\$123,384
2007	\$123,384	\$609,837	\$733,221
2008	\$733,221	(\$254,975)	\$478,246
2009	\$478,246	\$388,710	\$866,956

As can be seen from the following chart, employee compensation and benefits accounted for 72% of total expenses excluding depreciation in 2009.

2009 Expenses Excluding Depreciation



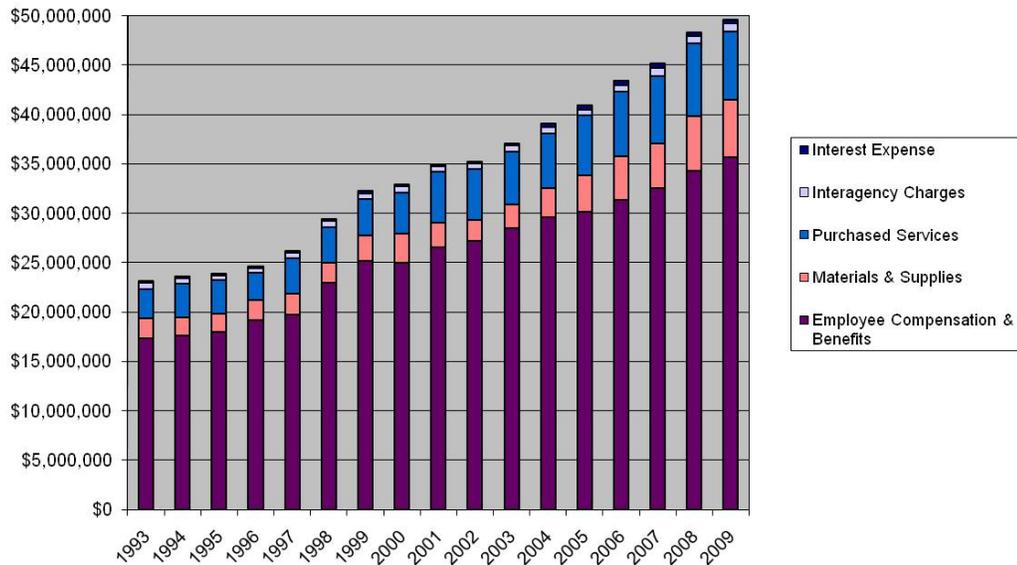
The first of the following charts illustrates the steady increase in the cost of operations that Metro has been experiencing. The last five years have seen an average increase in total expenses of 5.4% per year, driven primarily by a 19.3% average increase in materials and supplies expense which, in turn, was due to the rise in fuel costs during that period. The second chart compares Metro’s revenue sources for the same period of time. Passenger revenue has increased by an average of 14.0% per year during the last 5 years whereas state aid, which provides the largest portion of Metro’s revenue, increased 2.6% per year during the same time period.

See accompanying independent auditors’ report.

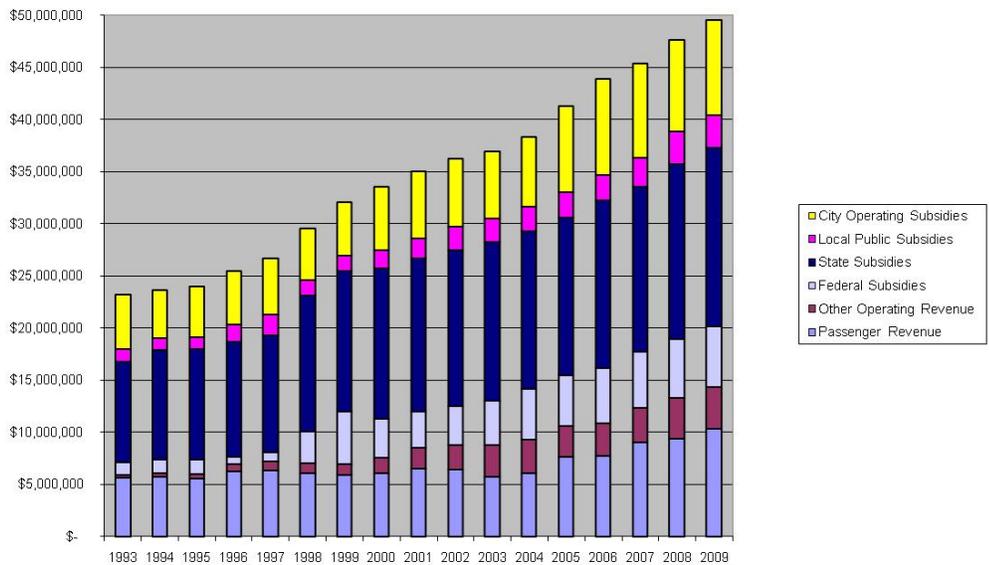
METRO TRANSIT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

Madison Metro Transit
Historical Expense Comparison



Madison Metro Transit Historical
Revenue Comparison



GRANT STATUS

Metro is fortunate to have strong federal and state support for capital funding for rolling stock (buses), ITS hardware/software, transit enhancements, facilities improvements and other capital projects. The following chart shows the year-end grant status of each grant against which expenses were charged during the year. Note that where balances are available as of 12/31/09 future capital project plans are budgeted to draw down those balances.

See accompanying independent auditors' report.

METRO TRANSIT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

Madison Metro Transit

Year End Grant Status as of 12/31/09

Note: All amounts listed are "Eligible Funds - 100 % of cost" not the FTA or State amount.

GRANTS	Funding Year	Total Funds Apportionment	Prior years expenditures	Beginning Balance 1/1/09	2009 expenditures	Balance available as of 12/31/09	Future Budgeted projects	Balance after budgeted projects	Detail of future budgeted projects- see page 2 & 3.
Federal Section 5307 Grants									
WI90X438	2005	\$ 7,611,755	\$ 7,454,406	\$ 157,349	\$ 64,345	\$ 93,004	\$ 93,004	\$ -	Software
WI90X493	2007	\$ 7,778,055	\$ 6,953,157	\$ 824,898	\$ 800,414	\$ 24,484	\$ 24,484	\$ -	Signs and phone system
WI90X530	2008	\$ 8,362,820	\$ 6,949,836	\$ 1,412,984	\$ 1,184,818	\$ 228,166	\$ 228,166	\$ -	Software/Hardware, Signs, STP Repaint, TE shelter maps, ACM-realignment & bus inspection
WI90X549	2009	\$ 8,980,667	\$ -	\$ 8,980,667	\$ 7,248,209	\$ 1,732,458	\$ 1,732,458	\$ -	Software/Hardware, Signs, TP Repaint, Farebox, Security Cameras, Truck, HVAC unit, Maint equip, ACM, PM, bus inspection & MPO
WI96X011-ARRA	2009	\$ 9,502,302	\$ -	\$ 9,502,302	\$ 519,356	\$ 8,982,946	\$ 8,982,946	\$ -	Hybrid buses, signs, van, & TP security system
FFY10 Grant (Est. apportionment)	2010	\$ 8,777,000	\$ -	\$ 8,777,000	\$ -	\$ 8,777,000	\$ 8,777,000	\$ -	MPO, PM, leases, TE, buses, Maint equip, security cameras, Rehab equip, software, hardware, expand NTP P&R, Utility trucks, etc.
Total Section 5307		\$ 51,012,599	\$ 21,357,399	\$ 29,655,200	\$ 9,817,142	\$ 19,838,058	\$ 19,838,058	\$ -	
Federal Section 5309 Grants (Fixed Guideway)									
WI050048	2009	\$ 1,209,720	\$ -	\$ 1,209,720	\$ 16,044	\$ 1,193,676	\$ 1,193,676	\$ -	2011 buses
WI560001-ARRA	2009	\$ 243,232	\$ -	\$ 243,232	\$ -	\$ 243,232	\$ 243,232	\$ -	2010 Hybrid buses
FFY10 Grant (Est. apportionment)	2010	\$ 600,000	\$ -	\$ 600,000	\$ -	\$ 600,000	\$ 600,000	\$ -	2011 buses
Total Section 5309		\$ 2,052,952	\$ -	\$ 2,052,952	\$ 16,044	\$ 2,036,908	\$ 2,036,908	\$ -	
Federal ARRA-Tigger Grant									
WI770001	2010	\$ 150,000	\$ -	\$ 150,000	\$ -	\$ 150,000	\$ 150,000	\$ -	Bus Storage & Garage Lighting project
Total TIGGER		\$ 150,000	\$ -	\$ 150,000	\$ -	\$ 150,000	\$ 150,000	\$ -	
State Section 5309 Grants (discretionary)									
WI040009	2008	\$ 1,231,825	\$ -	\$ 1,231,825	\$ 1,231,825	\$ -	\$ -	\$ -	Grant will be closed in 2010
2009 Grant	2009	\$ 1,642,598	\$ -	\$ 1,642,598	\$ -	\$ 1,642,598	\$ 1,642,598	\$ -	2011 buses
FFY10 Grant (Est. apportionment)	2010	\$ 1,500,000	\$ -	\$ 1,500,000	\$ -	\$ 1,500,000	\$ 1,500,000	\$ -	2011 buses
Total State 5309		\$ 4,374,423	\$ -	\$ 4,374,423	\$ 1,231,825	\$ 3,142,598	\$ 3,142,598	\$ -	
Total Capital Grants		\$ 57,439,974	\$ 21,357,399	\$ 36,082,575	\$ 11,065,011	\$ 25,017,564	\$ 25,017,564	\$ -	
OTHER GRANTS:									
Transport 2020 Grants									
WI260012	2006	\$ 1,980,000	\$ -	\$ 1,980,000	\$ -	\$ 1,980,000	\$ 1,980,000	\$ -	HNTB transport 2020 contract
WI390001	2006	\$ 1,485,000	\$ 1,205,854	\$ 279,146	\$ 19,714	\$ 259,432	\$ 259,432	\$ -	HNTB transport 2020 contract
WI390002	2007	\$ 1,500,000	\$ -	\$ 1,500,000	\$ -	\$ 1,500,000	\$ 1,500,000	\$ -	HNTB transport 2020 contract
WI390002 - Amendment	2007	\$ 250,000	\$ 163,242	\$ 86,758	\$ 65,491	\$ 21,267	\$ 21,267	\$ -	HNTB transport 2020 contract
Total Transport 2020 (SG67)		\$ 5,215,000	\$ 1,369,096	\$ 3,845,904	\$ 85,205	\$ 3,760,699	\$ 3,760,699	\$ -	

METRO TRANSIT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

Madison Metro Transit

Year End Grant Status as of 12/31/09

Note: All amounts listed are "Eligible Funds - 100 % of cost" not the FTA or State amount.

GRANTS	TE projects-1% of grant- repaint STP purchase display signs	Security cameras Systems	NTP P&R lot expansion	Utility Service Trucks	Farebox System	Stoughton Van	Operating Assistance	HVAC makeup units, exhaust hose, repave parking lot	Bus Storage & Garage Lighting project
Federal Section 5307 Grants									
WI90X438									
WI90X493	\$ 19,177								
WI90X530	\$ 80,000								
WI90X549	\$ 90,000	\$ 140,000		\$ 20,000	\$ 750,000			\$ 124,000	
WI96X011-ARRA	\$ 30,500	\$ 52,716				\$ 34,500	\$ 950,230		
FFY10 Grant (Est. apportionment)	\$ 87,777	\$ 100,000	\$ 211,000	\$ 105,000				\$ 316,000	
Total Section 5307	\$ 307,454	\$ 292,716	\$ 211,000	\$ 125,000	\$ 750,000	\$ 34,500	\$ 950,230	\$ 440,000	\$ -
Federal Section 5309 Grants (Fixed Guideway)									
WI050048									
WI560001-ARRA									
FFY10 Grant (Est. apportionment)									
Total Section 5309	\$ -								\$ -
Federal ARRA-Tigger Grant									
WI770001									\$ 150,000
Total TIGGER	\$ -								\$ 150,000
State Section 5309 Grants (discretionary)									
WI040009									
2009 Grant									
FFY10 Grant (Est. apportionment)									
Total State 5309	\$ -	\$ -		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Capital Grants	\$ 307,454	\$ 292,716		\$ 125,000	\$ 750,000	\$ 34,500	\$ 950,230	\$ 440,000	\$ -
OTHER GRANTS:									
Transport 2020 Grants									
WI260012									
WI390001									
WI390002									
WI390002 - Amendment									
Total Transport 2020 (SG67)									

METRO TRANSIT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

Madison Metro Transit

Year End Grant Status as of 12/31/09

Note: All amounts listed are "Eligible Funds - 100 % of cost" not the FTA or State amount.

GRANTS	Workforce Scheduling software and misc software	SHOP Equip (particulate trap, mobile lift, washers, wrenches, etc.)	VOIP Phone System	Computer hardware & software repl	Transport 2020 HNTB Consultants / On board survey	2010/11 buses and bus line inspection	2010 MPO	Prev Maint, tires, office lease, Paratmsit & ACM	Total Budgeted Projects
Federal Section 5307 Grants									
WI90X438	\$ 90,004								\$ 93,004
WI90X493			\$ 5,307						\$ 5,307
WI90X530	\$ 125,000			\$ 9,000		\$ 8,000		\$ 6,166	\$ 148,166
WI90X549	\$ 300,000	\$ 140,000		\$ 90,000		\$ 7,000	\$ 4,000	\$ 67,458	\$ 608,458
WI96X011-ARRA						\$ 7,915,000			\$ 7,915,000
FFY10 Grant (Est. apporntmnt)		\$ 61,000				\$ 500,000	\$ 47,000	\$ 7,349,223	\$ 7,957,223
Total Section 5307	\$ 515,004	\$ 201,000	\$ 5,307	\$ 99,000		\$ 8,430,000	\$ 51,000	\$ 7,422,847	\$ 16,727,158
Federal Section 5309 Grants (Fixed Guideway)									
WI050048						\$ 1,193,676			\$ 1,193,676
WI560001-ARRA						\$ 243,232			\$ 243,232
FFY10 Grant (Est. apporntmnt)						\$ 600,000			\$ 600,000
Total Section 5309	\$ -	\$ -		\$ -		\$ 2,036,908	\$ -	\$ -	\$ 2,036,908
Federal ARRA-Tigger Grant									
WI770001									\$ -
Total TIGGER	\$ -	\$ -		\$ -		\$ -	\$ -	\$ -	\$ -
State Section 5309 Grants (discretionary)									
WI040009									\$ -
2009 Grant						\$ 1,642,598			\$ 1,642,598
FFY10 Grant (Est. apporntmnt)						\$ 1,500,000			\$ 1,500,000
Total State 5309	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,142,598	\$ -	\$ -	\$ 3,142,598
Total Capital Grants	\$ 515,004	\$ 201,000	\$ 5,307	\$ 99,000	\$ -	\$ 13,609,506	\$ 51,000	\$ 7,422,847	\$ 21,906,664
OTHER GRANTS:									
Transport 2020 Grants									
WI260012						\$ 1,980,000.00			\$ 1,980,000.00
WI390001						\$ 259,432.00			\$ 259,432.00
WI390002						\$ 1,500,000.00			\$ 1,500,000.00
WI390002 - Amendment						\$ 21,267.00			\$ 21,267.00
Total Transport 2020 (SG67)						\$ 3,760,699.00			\$ 3,760,699.00

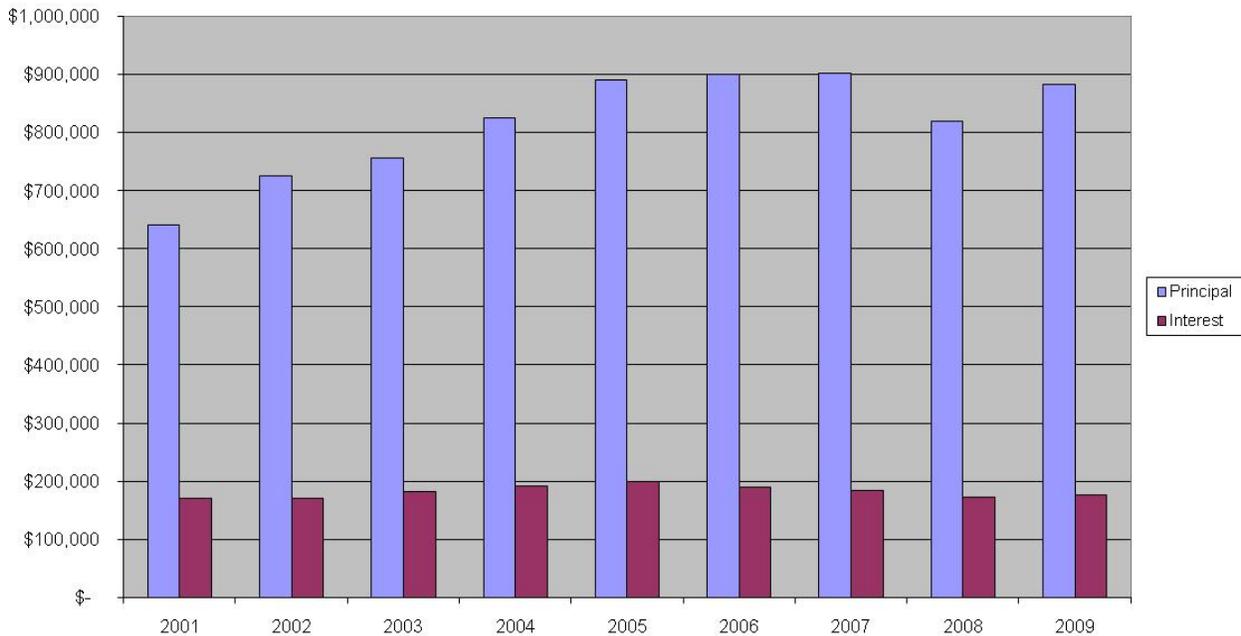
METRO TRANSIT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

Borrowing

As is shown in the information provided below, Metro's debt through the City's General Obligation borrowing (G.O. debt) has been kept to manageable levels. Most borrowing is related to capital purchases where 80 per cent of funding is derived from federal grant sources and the balance from local borrowing. The City has a triple A bond rating. The City carefully manages the borrowing and debt service.

**Madison Metro Transit
Principal & Interest
Payments
General Obligation Debt**



Financial Statements

Metro's basic financial statements are prepared on an accrual basis in accordance with accounting principles generally accepted in the United States of America, promulgated by the Government Accounting Standards Board (GASB). Revenues are recognized when earned, not when received. Expenses are recognized when incurred, not when they are paid. Capital assets, except land, are depreciated over their useful lives. See the notes to the financial report for a summary of Metro's significant accounting policies.

See accompanying independent auditors' report.

METRO TRANSIT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

Condensed Statements

The following condensed Statements found in Table 1 and Table 2 below are information required to appear in the Management Discussion and Analysis (MD & A) report. The footnoted references will assist in locating more details in the MD & A and Audit Report.

Table 1

Condensed Statements of Net Assets

	2009	2008	2007
Current and Other Assets	\$ 8,975,758	\$ 9,553,581	\$ 7,877,744
Capital Assets ¹	<u>38,460,743</u>	<u>32,526,006</u>	<u>36,762,144</u>
Total Assets	<u>47,436,501</u>	<u>42,079,587</u>	<u>44,639,888</u>
Long-Term Debt ²	9,242,235	9,398,301	8,862,604
Other Liabilities	<u>9,769,576</u>	<u>9,010,318</u>	<u>7,939,411</u>
Total Liabilities	<u>19,011,811</u>	<u>18,408,619</u>	<u>16,802,015</u>
Invested in Capital Assets, Net of Related Debt ³	33,546,521	28,839,830	32,410,205
Unrestricted (Deficit)	<u>(5,121,832)</u>	<u>(5,168,862)</u>	<u>(4,572,332)</u>
Total Net Assets	<u>\$ 28,424,689</u>	<u>\$ 23,670,968</u>	<u>\$ 27,837,873</u>

¹ See Page 26, Note 2 for details in this Audit report

² See Page 28, Note 4 for details in this Audit report

³ See Page 24, Note 1 for details in this Audit report

See accompanying independent auditors' report.

METRO TRANSIT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

Table 2

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	2009	2008	2007
Operating Revenues	\$ 14,311,144	\$ 13,294,906	\$ 12,362,526
Depreciation Expense	5,427,865	5,430,244	5,417,067
Other Operating Expenses	49,244,471	47,962,516	44,765,538
Non-operating Expenses ¹	398,553	400,290	409,243
Total Expenses	55,070,889	53,793,050	50,591,848
Operating Subsidies ¹	26,134,472	25,542,393	23,970,612
Income Before Capital			
Contributions and Transfers	(14,625,273)	(14,955,751)	(14,258,710)
Capital Contributions ²	10,211,514	1,921,747	3,774,243
Transfers	9,167,480	8,867,099	9,041,781
Changes in Net Assets	4,753,721	(4,166,905)	(1,442,686)
Beginning Net Assets	23,670,968	27,837,873	29,280,559
Ending Net Assets	\$ 28,424,689	\$ 23,670,968	\$ 27,837,873

¹ See Page 17 Statements of Revenues, Expenses and Changes in Net Assets for more detail

² See Pages 8-10 (Year End Grant Status) in this MD&A report for more detail.

Request for Information

This financial report is designed to provide a general overview of Metro's finances for all those interested. Questions concerning any of the information provided in this report or requests for additional information should be addressed in writing to Charles Kamp, General Manager, Metro Transit, 1245 East Washington Avenue, Suite 201, Madison, WI 53703 or by e-mail to: ckamp@cityofmadison.com

Respectfully submitted

Charles L. Kamp
Metro Transit General Manager

See accompanying independent auditors' report.

Statements of Net Assets Follows

METRO TRANSIT SYSTEM

STATEMENTS OF NET ASSETS December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ -	\$ 1,718,274
Restricted cash - retiree health insurance escrow	182,455	229,870
Receivable from State of Wisconsin and FTA - capital and maintenance	2,730,408	1,714,729
Receivable from other governmental units	2,456,605	2,789,425
Accounts receivable (net)	1,115,239	654,302
Materials and supplies	510,048	613,303
Prepaid expenses	590,920	535,832
Current portion of prepaid expense - land and tower lease	<u>27,087</u>	<u>28,098</u>
Total Current Assets	<u>7,612,762</u>	<u>8,283,833</u>
NON-CURRENT ASSETS		
Restricted cash - retiree health insurance escrow	1,140,818	1,020,483
Other Assets		
Prepaid expenses - land and tower lease	222,178	249,265
Capital Assets		
Transit plant in service	87,784,720	82,869,979
Accumulated depreciation	(49,323,977)	(50,406,064)
Construction work in progress	<u>-</u>	<u>62,091</u>
Total Non-Current Assets	<u>39,823,739</u>	<u>33,795,754</u>
Total Assets	<u>47,436,501</u>	<u>42,079,587</u>

LIABILITIES

	<u>2009</u>	<u>2008</u>
CURRENT LIABILITIES		
Due to city	\$ 897,369	\$ -
Current portion of general obligation debt	798,836	881,878
Current portion of advance from other funds	96,028	79,189
Current portion of deferred revenue - land and tower lease	24,919	25,868
Accounts payable	1,139,748	1,663,904
Accrued compensation, vacation and sick leave	1,239,827	1,366,266
Accrued interest	215,905	235,269
Retiree health insurance escrow payable from restricted assets	182,455	229,870
Other deferred credits	2,650	48,806
Total Current Liabilities	<u>4,597,737</u>	<u>4,531,050</u>
NON CURRENT LIABILITIES		
General obligation debt	4,216,355	4,210,190
Advance from other funds	4,131,016	4,227,044
Retiree health insurance escrow payable from restricted assets	1,140,818	1,020,483
Accrued sick leave	3,365,913	3,383,053
Deposits from other governments	124,676	-
Other post-employment benefits	1,236,516	813,099
Deferred revenue - land and tower lease	198,781	223,700
Total Non-Current Liabilities	<u>14,414,075</u>	<u>13,877,569</u>
 Total Liabilities	 <u>19,011,812</u>	 <u>18,408,619</u>
	NET ASSETS	
NET ASSETS		
Invested in capital assets, net of related debt	33,546,521	28,839,830
Unrestricted (Deficit)	<u>(5,121,832)</u>	<u>(5,168,862)</u>
 TOTAL NET ASSETS	 <u>\$ 28,424,689</u>	 <u>\$ 23,670,968</u>

See accompanying notes to financial statements.

METRO TRANSIT SYSTEM

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS Years Ended December 31, 2009 and 2008

	2009	2008
OPERATING REVENUES	<u>\$ 14,311,144</u>	<u>\$ 13,294,906</u>
OPERATING EXPENSES		
Employee compensation and benefits	35,697,169	34,309,490
Materials and supplies	5,797,744	5,585,864
Purchased services	6,981,135	7,315,145
Interagency charges	768,423	752,017
Total Operation and Maintenance Expenses	<u>49,244,471</u>	<u>47,962,516</u>
Depreciation expense	<u>5,427,865</u>	<u>5,430,244</u>
Total Operating Expenses	<u>54,672,336</u>	<u>53,392,760</u>
Operating Loss	<u>(40,361,192)</u>	<u>(40,097,854)</u>
OPERATING SUBSIDIES		
Federal subsidies	5,824,984	5,681,854
State operating subsidies	17,158,400	16,754,000
Other state subsidies	8,920	9,289
Local public subsidies	<u>3,142,168</u>	<u>3,097,250</u>
Total Operating Subsidies	<u>26,134,472</u>	<u>25,542,393</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest expense	<u>(398,553)</u>	<u>(400,290)</u>
Loss Before Contributions and Transfers	<u>(14,625,273)</u>	<u>(14,955,751)</u>
CAPITAL CONTRIBUTIONS - CITY & OTHER	1,023,894	1,006,874
CAPITAL CONTRIBUTIONS - FEDERAL & STATE	9,187,620	914,873
TRANSFERS IN - MPO	10,216	9,714
TRANSFERS IN - CITY OPERATING SUBSIDIES	<u>9,157,264</u>	<u>8,857,385</u>
Total Contributions and Transfers	<u>19,378,994</u>	<u>10,788,846</u>
CHANGE IN NET ASSETS	4,753,721	(4,166,905)
NET ASSETS - Beginning of Year	<u>23,670,968</u>	<u>27,837,873</u>
NET ASSETS - End of Year	<u><u>\$ 28,424,689</u></u>	<u><u>\$ 23,670,968</u></u>

See accompanying notes to financial statements.

Statements of Cash Flows Follows

METRO TRANSIT SYSTEM

STATEMENTS OF CASH FLOWS December 31, 2009 and 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 13,775,953	\$ 14,153,004
Paid to suppliers for goods and services	(24,489,312)	(23,839,602)
Paid to employees for services	(24,758,988)	(23,241,549)
Cash Flows from Operating Activities	(35,472,347)	(32,928,147)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Received from (paid to) city for implicit financing	897,369	-
Operating subsidies received - federal	5,800,401	5,849,907
Operating subsidies received - state	17,167,320	16,763,289
Operating subsidies received - local	3,396,130	2,557,833
Deposits received from other governments	124,676	-
Operating transfer from city	9,157,264	8,857,385
Cash Flows from Noncapital Financing Activities	36,543,160	34,028,414
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Debt retired	(881,878)	(820,133)
Interest paid	(191,840)	(167,726)
Repayment of capital advances from other funds	(79,189)	(64,170)
Interest paid on capital advances from other funds	(226,077)	(230,075)
Proceeds from issuance of general obligation debt	805,000	1,420,000
Acquisition and construction of capital assets	(11,362,602)	(1,194,106)
Capital contributions - city and other	1,023,894	1,006,874
Capital contributions - federal and state	8,196,525	418,095
Cash Flows From Capital and Related Financing Activities	(2,716,167)	368,759
Net Change in Cash and Cash Equivalents	(1,645,354)	1,469,026
CASH AND CASH EQUIVALENTS – Beginning of Year	2,968,627	1,499,601
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,323,273	\$ 2,968,627
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Debt refinanced	\$ 1,418,700	\$ -

	<u>2009</u>	<u>2008</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating loss	\$ (40,361,192)	\$ (40,097,854)
Noncash items included in operating loss		
Depreciation expense	5,427,865	5,430,244
Changes in Assets and Liabilities		
Accounts receivable	(460,937)	877,257
Materials and supplies	103,255	(93,470)
Prepaid expenses	(26,990)	(15,604)
Accrued payroll liabilities	(143,579)	(116,391)
Retiree health insurance escrow payable from restricted assets	72,920	130,752
Other post-employment benefits	423,417	403,431
Accounts payable	(435,082)	570,353
Other deferred credits	(72,024)	(16,865)
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ (35,472,347)</u>	<u>\$ (32,928,147)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET ASSETS ACCOUNTS		
Cash	\$ -	\$ 1,718,274
Restricted Cash - Retiree Health Insurance Escrow	<u>1,323,273</u>	<u>1,250,353</u>
CASH AND CASH EQUIVALENTS	<u>\$ 1,323,273</u>	<u>\$ 2,968,627</u>

See accompanying notes to financial statements.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Metro Transit System (Metro) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to enterprise funds of government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by Metro are described below:

REPORTING ENTITY

Metro provides public bus transportation in the Cities of Madison, Middleton, Fitchburg and Verona, the Town of Madison and the Village of Shorewood Hills. Metro is governed by the City Transit and Parking Commission which consists of City Council members and citizen representatives. Service is provided in two major areas: fixed route service utilizing approximately 200 coaches and paratransit services for the elderly and handicapped using both directly operated and purchased transportation services.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The term measurement focus is used to denote what is being measured and reported in Metro's operating statement. Metro is accounted for on the flow of economic resources measurement focus. The fundamental objective of this focus is to measure whether Metro is better or worse off economically as a result of events and transactions of the period.

The term basis of accounting is used to determine when a transaction or event is recognized on Metro's operating statement. Metro uses the full accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

Metro is presented as an enterprise fund of the municipality. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business or where the governing body has decided that the determination of revenues earned, costs incurred and net income is necessary for management accountability.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in Metro's financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Metro has elected not to follow subsequent private-sector guidance.

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2009 and 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ASSETS, LIABILITIES, AND NET ASSETS

Cash and Cash Equivalents

All Metro cash is commingled with the city cash and investments, which are managed by the City Treasurer. The disclosures regarding deposit and investment risks, as required by Statement No. 40 of the Governmental Accounting Standards Board are included in the general-purpose financial statements of the city, since it is not possible to segregate them by fund.

For purposes of the statement of cash flows, cash and cash equivalents have original maturities of three months or less from the date of acquisition.

Deposits and Investments

State statutes restrict investment of transit funds. Investments are limited to:

1. Time deposits in any credit union, bank, savings bank or trust company maturing in three years or less.
2. Bonds or securities of any county, city, drainage district, technical college district, village, town, or school district of the state. Also, bonds issued by a local exposition district, local professional baseball park district, local professional football stadium district, local cultural arts district or by the University of Wisconsin Hospitals and Clinics Authority.
3. Bonds or securities issued or guaranteed by the federal government.
4. The local government investment pool.
5. Any security maturing in seven years or less and having the highest or second highest rating category of a nationally recognized rating agency.
6. Securities of an open-end management investment company or investment trust, subject to various conditions and investment options.
7. Repurchase agreements with public depositories, with certain conditions.

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2009 and 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ASSETS, LIABILITIES, AND NET ASSETS (cont.)

Accounts Receivable

Metro considers receivables from government units to be fully collectible; accordingly, no allowance for doubtful accounts from governmental units is presented. Allowances of \$28,728 and \$19,670 are included in 2009 and 2008, respectively, for general accounts receivable.

Materials and Supplies

Materials and supplies are generally used for operation and maintenance work, not for resale. They are valued at lower of cost or market based on the FIFO method and charged to operation and maintenance expense when used. An allowance of \$50,000 for obsolete materials is included in 2009 and 2008.

Prepaid Expenses

This represents amounts paid for services or coverage to be provided in future periods.

Capital Assets

Capital assets are defined by Metro as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

Additions to and replacements of Metro capital assets are recorded at original cost, which includes material, labor, overhead, and an allowance for the cost of funds used during construction when significant. The cost of renewals and betterments relating to retirement units is added to capital asset accounts. The cost of property replaced, retired or otherwise disposed of is deducted from capital asset accounts and is charged to accumulated depreciation.

Fixed assets other than land are depreciated using the straight line method over their estimated useful life.

A summary of capital assets and estimated useful lives follows:

	Balance 12/31/09	Balance 12/31/08	Years
Land	\$ 2,628,235	\$ 2,628,235	N/A
Building	11,630,925	11,612,675	5 – 40
Curb and land improvements	6,573,122	6,619,482	5
Revenue equipment	55,951,262	51,618,214	8 – 20
Service vehicles	686,318	660,065	4 – 5
Shop and garage equipment	1,763,008	1,596,009	3 – 10
Furniture and office equipment	1,438,903	1,388,014	3 – 10
Miscellaneous and farebox	7,112,947	6,747,285	3 – 15
	<u> </u>	<u> </u>	
Total Capital Assets	<u>\$ 87,784,720</u>	<u>\$ 82,869,979</u>	

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2009 and 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ASSETS, LIABILITIES, AND NET ASSETS (cont.)

Accrued Compensation, Sick Leave and Vacation

Employees are allowed to accumulate up to 150 days of sick time. For office employees and drivers one day is equivalent to eight hours; for all other employees one day is equivalent to 8-36/60 hours. Upon retirement or disability, Wisconsin Retirement System participants may receive the cash value of the accumulated sick leave subject to the above maximum or use all or a portion for the payment of continued health insurance premiums. Funding for those costs is provided out of the operating revenues of Metro. The estimated liability for current employees at December 31, 2009 and 2008 is \$3,416,769 and \$3,497,317, respectively.

Employees earn varying amounts of vacation depending on the number of years of service. Vacation time for all non-represented employees and represented employees hired prior to January 1, 1998 is awarded based on the prior year's service and is, therefore, accrued at the end of each year. Represented employees hired after January 1, 1998 are awarded their vacation immediately and can use it once they have completed their probationary period. Represented employees may opt to carry over one week of vacation each year. All other vacation time must be used within the year received.

Retiree Health Insurance Escrow

Metro makes an annual deposit into an escrow account for contributions toward the health insurance premiums for certain eligible retirees. The deposit in both 2009 and 2008 was \$303,000. To qualify a retiree must have retired on or after reaching age 55, must have completed ten continuous years of full-time service with Metro in a position represented by Teamsters Union Local 695, just prior to retiring and be eligible to retire under the Wisconsin Retirement System (WRS). Retirees receive this benefit for a maximum of five consecutive years or until becoming eligible for Medicare. Retirees will be eligible for premium contributions to the extent that funds are available in the escrow account and Metro will not be required to make any additional payments to the account should the cost of providing premium contributions exceed the amount deposited. Interest income remains with the escrow account less a 1% administrative fee transferred to the City. 99 current employees have met the eligibility requirements.

Long-Term Obligations

Long-term debt and other obligations are reported as Metro liabilities.

Deposits from Other Governments

\$124,676 in deposits were received in 2009 from the entities listed in Note 5 that provide Metro with local operating assistance subsidies. These deposits will be held by Metro in reserve to help fund unanticipated cost increases in future years.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ASSETS, LIABILITIES, AND NET ASSETS (cont.)

Net Assets

Equity is classified as Net Assets and is displayed in three components:

- > *Invested in capital assets, net of related debt* – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- > *Restricted* – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislations.

Metro's restricted assets equal liabilities payable from those assets therefore there are no restricted net assets.

- > *Unrestricted net assets* – This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

When both restricted and unrestricted resources are available for use, it is Metro's policy to use restricted resources first then unrestricted resources as they are needed.

The following calculation supports the net assets invested in capital assets, net of related debt:

	2009	2008
Plant in service	\$ 87,784,720	\$ 82,869,979
Accumulated depreciation	(49,323,977)	(50,406,064)
Construction work in progress	-	62,091
Sub-Totals	38,460,743	32,526,006
Less: Capital related debt		
Current portion of general obligation bonds	798,836	881,878
Long-term portion of capital related general obligation bonds	4,216,355	4,210,190
Sub-Totals	5,015,191	5,092,068
Add unspent proceeds of capital-related debt included above	100,969	1,405,892
Total Net Assets Invested in Capital Assets, Net of Related Debt	\$ 33,546,521	\$ 28,839,830

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

REVENUES AND EXPENSES

Revenue Recognition

Metro distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services. The principal operating revenues of Metro are charges to customers for services. In addition, as fully described in Note 5, Metro also receives operating revenues from state, local and federal governments. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. Other revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Taxes

Municipal transit utilities are exempt from federal and state income taxes and, therefore, no income tax liability is recorded by Metro.

Capital Contributions

Metro has received Federal, State and local funding for acquisition and construction of capital assets. In accordance with GASB Statement No. 33, this funding is reported as an increase in net assets.

The Federal and State grants are subject to grantor agency compliance audits. Management believes losses, if any, resulting from those compliance audits are not material to these statements.

EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS

The Governmental Accounting Standards Board (GASB) has approved GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets and Statement No. 53, Accounting and Financial Reporting for Derivative Instruments. Application of these standards may restate portions of these financial statements.

COMPARATIVE DATA

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2009 and 2008

NOTE 2 – CHANGES IN CAPITAL ASSETS

A summary of changes in Metro capital assets for 2009 and 2008 follows:

	Balance 1/1/09	Additions	Retirements	Balance 12/31/09
Capital assets not being depreciated				
Land	\$ 2,628,235	\$ -	\$ -	\$ 2,628,235
Capital assets being depreciated				
Building and improvements	11,612,675	31,383	(13,133)	11,630,925
Curb and land improvements	6,619,484	-	(46,361)	6,573,122
Revenue vehicles	51,618,213	10,709,374	(6,376,325)	55,951,262
Service vehicles	660,064	79,255	(53,001)	686,318
Shop and garage equipment	1,596,009	167,208	(209)	1,763,008
Office equipment	1,388,015	71,811	(20,923)	1,438,903
Miscellaneous and farebox	6,747,284	365,662	-	7,112,947
Total Capital Assets Being Depreciated	80,241,744	11,424,693	(6,509,952)	85,156,485
Total Capital Assets	82,869,979	11,424,693	(6,509,952)	87,784,720
Less: Accumulated depreciation				
Building and improvements	(7,486,916)	(422,927)	13,133	(7,896,710)
Curb and land improvements	(4,816,179)	(412,900)	46,361	(5,182,718)
Revenue vehicles	(32,252,315)	(3,610,926)	6,376,325	(29,486,916)
Service vehicles	(515,007)	(40,160)	53,001	(502,166)
Shop and garage equipment	(1,421,220)	(62,743)	209	(1,483,754)
Office equipment	(943,255)	(151,797)	20,923	(1,074,129)
Miscellaneous and farebox	(2,971,172)	(726,412)	-	(3,697,584)
Total Accumulated Depreciation	(50,406,064)	(5,427,865)	6,509,952	(49,323,977)
Construction in progress	62,091	329,328	(391,419)	-
Net Transit System Plant	\$ 32,526,006			\$ 38,460,743

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2008

NOTE 2 – CHANGES IN CAPITAL ASSETS (cont.)

	Balance 1/1/08	Additions	Retirements	Adjustments	Balance 12/31/08
Capital assets, not being depreciated					
Land	\$ 2,753,812	\$ -	\$ -	\$ (125,577)	\$ 2,628,235
Capital assets being depreciated					
Building and improvements	11,502,062	199,434	(88,821)	-	11,612,675
Curb and land improvements	6,383,441	116,879	(6,413)	125,577	6,619,484
Revenue vehicles	51,296,668	321,545	-	-	51,618,213
Service vehicles	523,765	161,175	(24,876)	-	660,064
Shop and garage equipment	1,480,762	162,022	(46,775)	-	1,596,009
Office equipment	1,381,383	125,069	(118,437)	-	1,388,015
Miscellaneous and farebox	6,662,799	84,894	(409)	-	6,747,284
Total Capital Assets Being Depreciated	<u>79,230,880</u>	<u>1,171,018</u>	<u>(285,731)</u>	<u>125,577</u>	<u>80,241,744</u>
Total Capital Assets	<u>81,984,692</u>	<u>1,171,018</u>	<u>(285,731)</u>	<u>-</u>	<u>82,869,979</u>
Less: Accumulated depreciation					
Building and improvements	(7,168,134)	(407,603)	88,821	-	(7,486,916)
Curb and land improvements	(4,263,131)	(559,461)	6,413	-	(4,816,179)
Revenue vehicles	(28,808,603)	(3,443,712)	-	-	(32,252,315)
Service vehicles	(521,240)	(18,643)	24,876	-	(515,007)
Shop and garage equipment	(1,422,107)	(45,888)	46,775	-	(1,421,220)
Office equipment	(854,901)	(206,791)	118,437	-	(943,255)
Miscellaneous and farebox	(2,223,435)	(748,146)	409	-	(2,971,172)
Total Accumulated Depreciation	<u>(45,261,551)</u>	<u>(5,430,244)</u>	<u>285,731</u>	<u>-</u>	<u>(50,406,064)</u>
Construction in progress	<u>39,003</u>	<u>319,492</u>	<u>(296,404)</u>	<u>-</u>	<u>62,091</u>
Net Transit System Plant	<u>\$ 36,762,144</u>				<u>\$ 32,526,006</u>

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2009 and 2008

NOTE 3 – INTER-FUND RECEIVABLES/PAYABLES AND TRANSFERS

The following is a schedule of inter-fund balances as of December 31, 2009 and 2008:

Due To	Due From	2009		2008	
		Amount	Purpose	Amount	Purpose
City of Madison	Metro	\$ 897,369	Implicit cash financing	\$ -	

The following is a schedule of transfer balances as of December 31, 2009 and 2008:

To	From	2009		2008	
		Amount	Principal Purpose	Amount	Principal Purpose
Metro	City of Madison	\$ 9,157,264	City operating subsidy	\$ 8,857,385	City operating subsidy
Metro	City of Madison	10,216	Local share of MPO grant	9,714	Local share of MPO grant

NOTE 4 – LONG-TERM OBLIGATIONS

GENERAL OBLIGATION NOTE

The city on behalf of Metro has borrowed funds for the purpose of capital purchases. The following is a summary of Metro's share of city general obligation note issues:

Title of Issue	Date of Issue	Final Maturity	Interest Rates	Original Amount	Amount Outstanding 12/31/09
Promissory note	7-1-00	7-1-10	5.25 - 5.50%	\$ 238,000	\$ 23,800
Promissory note	10-1-04	10-1-14	3.00 - 3.65%	1,200,000	600,000
Promissory note	10-1-05	10-1-10	3.50 - 5.00%	603,000	60,300
Promissory note	10-1-06	10-1-16	4.00%	750,000	524,872
Promissory Note	10-1-07	10-1-17	4.00 – 5.00%	380,648	304,519
Promissory Note	10-15-08	10-15-18	3.82%	1,420,000	1,278,000
Promissory Note	10-1-09	10-1-15	2.00 – 3.00%	1,418,700	1,418,700
Promissory Note	10-1-09	10-1-19	0.90 – 4.35%	805,000	805,000
Total					<u>\$ 5,015,191</u>

The repayment schedules for the debt are shown on the following page.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2009 and 2008

NOTE 4 – LONG-TERM OBLIGATIONS (cont.)

Year	7-1-00		10-1-04		10-1-05		10-1-06		10-1-07		10-15-08	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 23,800	\$ 655	\$ 120,000	\$ 19,380	\$ 60,300	\$ 3,018	\$ 75,043	\$ 20,995	\$ 38,065	\$ 12,181	\$ 142,000	\$ 50,126
2011	-	-	120,000	15,780	-	-	75,043	17,993	38,065	10,658	142,000	44,446
2012	-	-	120,000	12,180	-	-	75,043	14,991	38,065	9,135	142,000	39,476
2013	-	-	120,000	8,340	-	-	75,043	11,990	38,065	7,613	142,000	34,506
2014	-	-	120,000	4,380	-	-	74,900	8,988	38,065	6,090	142,000	29,181
2015	-	-	-	-	-	-	74,900	5,992	38,065	4,568	142,000	23,856
2016	-	-	-	-	-	-	74,900	2,996	38,065	3,045	142,000	18,176
2017	-	-	-	-	-	-	-	-	38,064	1,523	142,000	12,141
2018	-	-	-	-	-	-	-	-	-	-	142,000	6,106
2019	-	-	-	-	-	-	-	-	-	-	-	-
Totals	\$ 23,800	\$ 655	\$ 600,000	\$ 60,060	\$ 60,300	\$ 3,018	\$ 524,872	\$ 83,945	\$ 304,519	\$ 54,813	\$ 1,278,000	\$ 258,014

Year	10-1-09		10-1-09		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 259,091	\$ 38,425	\$ 80,537	\$ 15,877	\$ 798,836	\$ 160,657
2011	382,175	33,244	80,537	14,505	837,820	136,626
2012	305,934	21,778	80,537	13,458	761,579	111,018
2013	224,362	12,600	80,537	12,411	680,007	87,460
2014	123,569	5,870	80,537	11,298	579,071	65,807
2015	123,569	3,089	80,463	9,793	458,997	47,298
2016	-	-	80,463	8,225	335,428	32,442
2017	-	-	80,463	6,394	260,527	20,058
2018	-	-	80,463	4,406	222,463	10,512
2019	-	-	80,463	2,249	80,463	2,249
Totals	\$ 1,418,700	\$ 115,006	\$ 805,000	\$ 98,616	\$ 5,015,191	\$ 674,127

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2009 and 2008

NOTE 4 – LONG-TERM OBLIGATIONS (cont.)

DEBT REFUNDING

On October 2, 2009, the municipality, on behalf of Metro, issued \$1,418,700 in bonds with an average interest rate of 2.69 percent to refund \$1,418,700 of outstanding bonds with an average interest rate of 4.0 percent. The proceeds were transferred to the city's debt service fund where they will be used to pay off the refunded bonds when callable in 2009 and 2010. As a result, the old bonds are considered to be defeased and the liability for the old bonds has been removed from the balance sheet.

The cash flow requirements on the old bonds prior to the advance refunding was \$1,562,041 from 2010 through 2015. The cash flow requirements on the new bonds are \$1,533,707 from 2010 through 2015. The refunding resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$35,000.

ADVANCE FROM OTHER FUNDS

The city has advanced the following to Metro from the debt service fund:

Date	Purpose	Final Maturity	Interest Rates	Original Amount	Amount Outstanding 12/31/09
July 1, 2004	Pay off WRS Prior Service Liability	March 15, 2024	5.25%	\$4,551,081	\$4,227,044

Advance from other funds debt service requirements to maturity follows:

Year	Principal	Interest	Total
2010	\$ 96,028	\$ 221,920	\$ 317,948
2011	113,322	216,878	330,200
2012	132,436	211,507	343,943
2013	153,371	203,976	357,347
2014	176,582	195,924	372,506
2015	201,613	186,654	388,267
2016	228,464	176,551	405,015
2017	258,501	164,074	422,575
2018	289,904	150,503	440,407
2019	324,947	135,283	460,230
2020	362,721	118,547	481,268
2021	403,226	99,181	502,407
2022	446,916	78,011	524,927
2023	493,337	54,548	547,885
2024	545,676	28,726	574,402
Totals	<u>\$ 4,227,044</u>	<u>\$ 2,242,283</u>	<u>\$ 6,469,327</u>

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2009 and 2008

NOTE 4 – LONG-TERM OBLIGATIONS (cont.)

Metro's long-term obligations activity for the years ended December 31, 2009 and 2008 is as follows:

	Balance 1/1/09	Additions	Reductions	Balance 12/31/09	Due Within One Year
General obligation notes	\$ 5,092,068	\$ 2,223,700	\$ 2,300,577	\$ 5,015,191	\$ 798,836
Advance from other funds	4,306,233	-	79,189	4,227,044	96,028
Retiree health insurance escrow	1,250,353	312,666	239,746	1,323,273	182,455
Accrued sick leave	3,497,317	69,132	149,679	3,416,770	50,857
Deposits from other governments	-	124,676	-	124,676	-
Unfunded OPEB liability	813,099	423,417	-	1,236,516	-
Deferred revenue-land and tower lease	249,568	-	25,868	223,700	24,919
Totals	\$ 15,208,638	\$ 3,153,591	\$ 2,795,059	\$ 15,567,170	\$ 1,153,095

	Balance 1/1/08	Additions	Reductions	Balance 12/31/08	Due Within One Year
General obligation notes	\$ 4,492,201	\$ 1,420,000	\$ 820,133	\$ 5,092,068	\$ 881,878
Advance from other funds	4,370,403	-	64,170	4,306,233	79,189
Retiree health insurance escrow	1,119,601	335,131	204,379	1,250,353	229,870
Accrued sick leave	3,322,244	425,725	250,652	3,497,317	114,264
Unfunded OPEB liability	409,668	403,431	-	813,099	-
Deferred revenue-land and tower lease	276,439	-	26,871	249,568	25,868
Totals	\$ 13,990,556	\$ 2,584,287	\$ 1,366,205	\$ 15,208,638	\$ 1,331,069

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2008

NOTE 5 – OPERATING SUBSIDIES

Metro receives operating subsidies from state and local governments. Federal subsidies are received for capital grants as well as capital grants that reimburse outlays recorded as operating expenses.

State operating assistance is received in quarterly payments from the Wisconsin Department of Transportation.

Local operating assistance is in the form of subsidies from the City of Madison, Town of Madison, Cities of Middleton, Fitchburg and Verona, the Village of Shorewood Hills, the University of Wisconsin, Madison Area Technical College and Madison Metropolitan School District. Contracts are executed with all entities defining subsidy amounts and procedures.

The following are the operating subsidies for the years 2009 and 2008:

	2009	2008
Federal	\$ 5,824,984	\$ 5,681,854
State	17,158,400	16,754,000
Other state subsidies	8,920	9,289
Local public subsidies	3,142,168	3,097,250
City of Madison	9,157,264	8,857,385

Federal and State subsidies are subject to granting agency compliance audits. Management believes losses, if any, resulting from the compliance audits are not material to these statements.

NOTE 6 – DEFERRED REVENUE/PREPAID EXPENSE – LAND AND TOWER LEASE

In 1993 the city on behalf of Metro entered into an operating lease with the University Research Park, Inc. for use of a tower. Metro's share of the lease was \$96,250. The lease is 25 years in length and was fully prepaid. The revenue received to pay for the lease was deferred and is being recognized using the straight-line method over the life of the lease.

In 1997 the city on behalf of Metro entered into two operating leases with Oscar Mayer Foods Division of Kraft Foods, Inc. and University Research Park, Inc. for two parcels of land used in conjunction with bus transfer facilities for \$93,000 and \$214,000, respectively. The operating leases are fifteen and thirty years in length, respectively, and were fully prepaid. The revenue received to pay for the two leases was deferred and is being recognized using the straight-line method over the life of the leases.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2008

NOTE 6 – DEFERRED REVENUE/PREPAID EXPENSE – LAND AND TOWER LEASE (cont.)

In 2004, the city on behalf of Metro entered into an operating lease for \$103,488 with Kraft Foods for a parcel of land to be used as the North Park & Ride lot through 2012. At the same time extensions of both the North Transfer Point lease and the North Park & Ride lease were also negotiated through 2018 for an additional \$96,200. These leases were fully prepaid. The revenue received to pay for these leases was deferred and is being recognized using the straight-line method over the life of the leases.

NOTE 7 – EMPLOYEES' RETIREMENT SYSTEM

All eligible Metro employees participate in the Wisconsin Retirement System (System), a cost-sharing multiple-employer defined benefit public employee retirement system (PERS). All permanent employees expected to work over 600 hours a year are eligible to participate in the System. Covered employees were required by statute to contribute 5.0 % and 6.0% of their salary to the plan in 2009 and 2008, respectively. Employers generally make these contributions to the plan on behalf of employees. Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits.

	Years Ended December 31		
	2009	2008	2007
Total Covered Metro Payroll	<u>\$ 25,080,498</u>	<u>\$ 22,960,505</u>	<u>\$ 22,051,677</u>
Total Required Contributions	<u>\$ 2,608,372</u>	<u>\$ 2,433,814</u>	<u>\$ 2,337,478</u>
Total Required Contributions (%)	<u>10.4%</u>	<u>10.6%</u>	<u>10.6%</u>

Total Metro payroll is substantially the same as payroll covered by the Wisconsin Retirement System. Details of the plan are disclosed in the general-purpose financial statements of the City of Madison for the years ended December 31, 2009 and 2008.

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS

The city administers a single-employer defined benefit healthcare plan, (the Retiree Health Plan) in which Metro participates. The Plan provides healthcare coverage to eligible retired city employees and their spouses, which covers both active and retired members. The Plan is affiliated with the Wisconsin Public Employer's Group Health Insurance – Dane County service area plan, a purchasing plan administered by the State of Wisconsin. Benefit provisions are established through collective bargaining agreements. The Retiree Health Plan does not issue a publicly available financial report.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2008

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (cont.)

Contribution requirements are established through collective bargaining agreements and may be amended only through negotiations between the city and the union. The Plan provides eligible retirees with the opportunity to stay on the city's health insurance plan. Eligible retirees and spouses contribute the full amount of the premiums after age 55, except for teamsters who contribute the difference between the rate paid by the city and current year rate. As the eligibility requirements for different classes of employees vary, please see the City of Madison audit report for complete details of all benefits offered.

The city's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the city's annual OPEB cost for 2009:

	Entire City	Metro
Annual required contribution	\$ 6,156,565	\$ 905,662
Contributions made	3,912,191	482,245
Increase in Net OPEB Obligation	2,244,374	423,417
Net OPEB Obligation – Beginning of Year	6,235,738	813,099
Net OPEB Obligations – End of Year	\$ 8,480,112	\$ 1,236,516

The city's and Metro's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the increase in net OPEB obligation for 2009 and 2008 were as follows:

<i>City</i>			
Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Increase in Net OPEB Liability
December 31, 2009	\$ 6,156,565	64%	\$ 2,244,374
December 31, 2008	5,460,866	43%	3,093,954
<i>Metro</i>			
Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Increase in Net OPEB Liability
December 31, 2009	\$ 905,662	53%	\$ 423,417
December 31, 2008	885,094	54%	403,431

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2009 and 2008

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (cont.)

The funded status of the plan (for the entire city) as of December 31, 2009, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$ 52,380,424
Actuarial value of plan assets	<u>2,878,094</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 49,502,330</u>
Funded Ratio (Actuarial Value of Plan Assets/AAL)	<u>5.5%</u>
Covered Payroll (Active Plan Members)	<u>\$ 151,200,168</u>
UAAL as a Percentage of Covered Payroll	<u>32.7%</u>

Actuarial valuations of an ongoing plan involve estimates for the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 7.5% investment rate of return and an annual healthcare cost trend rate of 8.0% for 2010, reduced by decrements to an ultimate rate of 4.5% for 2017 and beyond. Both rates include a 3.0% inflation assumption. The plan's unfunded actuarial accrued liability is being amortized as a level dollar amount on an open basis. The remaining amortization period at December 31, 2009, was 27 years.

Please see the City of Madison basic financial statements for the required supplemental schedule of funding progress.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2009 and 2008

NOTE 9 – RISK MANAGEMENT

The city is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors and omissions, workers compensation, and health care of its employees. The city purchases commercial insurance for health care and most property losses. Settled claims have not exceeded the commercial coverage for health claims in any of the past three years. There has been no reduction in coverage compared to the prior year.

The city is self-insured for workers' compensation claims. The city is partially self-funded and participates in a public entity risk pool to provide coverage for liability and transit system property losses.

For its other liability coverage Metro Transit was insured under the City of Madison's liability program with Wisconsin Mutual Insurance Company (WMMIC). Details of the City's participation with WMMIC are provided in the City's financial statements. Metro Transit's workers' compensation program is also included in the City's self-insured workers' compensation program. Metro Transit's property exposures are insured under the City's property coverage through the Local Government Property Insurance Fund.

TRANSIT MUTUAL INSURANCE CORPORATION OF WISCONSIN (TMI)

The Transit Mutual Insurance Corporation of Wisconsin is a joint effort of Wisconsin municipalities which have joined together for the managing and funding of the first party property losses and third party liability claims of its member municipalities' mass transit funds.

In 2009 Metro Transit was insured by Transit Mutual Insurance Corporation of Wisconsin ("TMI") for its automobile exposure. Metro Transit's policy with TMI had a policy period of January 1, 2009 to December 31, 2009 and contained a combined single limit of \$7,000,000 per accident.

Management consists of a board of directors comprised of one representative for each member. The municipality does not exercise any control over the activities of the agency beyond its representation on the board of directors.

Initial contributions are determined in advance of each membership year. The board of directors may require that supplemental contributions be made by members to ensure adequate funds are available to meet the obligations applicable to the membership year. Members have a contractual obligation to fund any deficit attributable to a membership year during which they were members. The city's share of this organization is 38.65%. A list of the other members is available in the TMI Report, which is available from: Transit Mutual Insurance Corporation of Wisconsin, P.O. Box 1772, Appleton, WI 54912-1772.

METRO TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2009 and 2008

NOTE 10 – BASIS FOR EXISTING FARES

Current fares were made effective April 4, 2009 as approved by the Transit and Parking Commission.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Metro provides FTA Section 5307 appropriation funds to the Metropolitan Planning Organization for planning, short-range studies, Transportation Improvement Program (TIP) development and ridesharing, bikeways and other corridor studies.

Metro provides Wisconsin Department of Transportation Section 85.20 funds to Dane County for door-to-door volunteer driver escort services and Group Access Transportation for the elderly and disabled in the Metro Transit System service area.

Metro contracts with a number of providers for demand-responsive paratransit services. Contract terms and conditions vary for each provider.

In January of 2008 the Transit and Parking Commission approved a contract with Gillig Corp. for the purchase of up to 75 buses over a five-year period.

From time to time Metro is party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and Metro's legal counsel that the likelihood is remote that any such claims or proceedings will have a material adverse effect on Metro's financial position or results of operations.

SUPPLEMENTAL INFORMATION

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and Common Council
Metro Transit System
Madison, Wisconsin

We have audited the financial statements of Metro Transit System (Metro) as of and for the year ended December 31, 2009, and have issued our report thereon dated June 23, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Metro's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of Metro's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Metro's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses; and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. As outlined in the report on internal controls to management, we identified no material weakness.

A deficiency in internal controls exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

To the Honorable Mayor and Common Council
Metro Transit System

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Metro's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Honorable Mayor and Common Council, management, federal and state awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Baker Tilly Verhoeven Krause LLP

Madison, Wisconsin
June 23, 2010

METRO TRANSIT SYSTEM

OPERATING REVENUES AND EXPENSES

December 31, 2009 and 2008

OPERATING REVENUES	<u>2009</u>	<u>2008</u>
Passenger Fares for Transit Services		
Farebox revenues	\$ 1,333,841	\$ 1,368,037
Adult ticket revenue	891,540	872,424
Student ticket revenue	335,375	307,173
Elderly and handicapped revenue	539,885	454,740
Monthly/daily pass revenue	1,083,957	1,012,569
Summer youth passes	20,850	22,710
Easy rider pass - all days	349,562	314,134
UW student unlimited ride pass agreement revenue	2,488,239	2,325,438
UW/UW Hospital employee unlimited ride pass agreement	1,429,118	1,306,753
Edgewood College unlimited ride pass agreement	68,955	55,934
MMSD passes	1,127,488	788,550
MATC unlimited ride pass agreement	467,108	428,338
St Marys unlimited ride pass agreement	45,157	33,618
Meriter unlimited ride pass agreement	29,808	2,053
City of Madison employee unlimited ride pass agreement	118,382	109,920
Total Passenger Fares for Transit Service	<u>10,329,265</u>	<u>9,402,391</u>
Other Operating Revenues		
Advertising revenue	392,980	418,328
Sale of buses, scrap and parts	44,173	23,636
Miscellaneous	61,261	125,621
Dane County - MA waiver	2,790,825	2,815,961
Dane County - elderly & handicapped	137,532	134,324
Dane County - group access service	168,131	149,516
Dane County - group RSVP service	103,087	61,529
Dane County - exceptional rides	82,876	82,525
Dane County - common carrier	109,695	61,795
Dane County - CARE Wisconsin	72,039	-
Dane County - highway (marketing)	19,280	19,280
Total Other Operating Revenues	<u>3,981,879</u>	<u>3,892,515</u>
Total Operating Revenues	<u>14,311,144</u>	<u>13,294,906</u>
OPERATING EXPENSES		
Operation and Maintenance Expenses		
Employee compensation and benefits		
Salaries and wages	24,758,988	23,241,549
Pensions and benefits	10,938,181	11,067,941
Total Employee Compensation and Benefits	<u>35,697,169</u>	<u>34,309,490</u>
Materials and supplies	5,797,744	5,585,864
Purchased services	6,981,135	7,315,145
Interagency charges	768,423	752,017
Total Operation and Maintenance Expenses	<u>49,244,471</u>	<u>47,962,516</u>
Depreciation expense	5,427,865	5,430,244
Total Operating Expenses	<u>54,672,336</u>	<u>53,392,760</u>
NET OPERATING LOSS	<u>\$ (40,361,192)</u>	<u>\$ (40,097,854)</u>

METRO TRANSIT SYSTEM

DETAILED SCHEDULE OF REVENUES AND EXPENSES - REGULATORY BASIS December 31, 2009 and 2008

	2009	2008
REVENUES		
401.00 Passenger fares for transit service	\$ 10,329,265	\$ 9,402,391
402.00 Special transit fares - New Year's Eve contributions and other	10,000	10,000
402.10 Service charges, NSF charges, etc.	51,261	115,621
406.00 Auxiliary transportation revenue - advertising	392,980	418,328
407.10 Contra-expense for sale of buses, scrap and parts	44,173	23,636
409.10 Local public subsidies	3,142,168	3,097,250
409.30 City of Madison operating subsidy	9,157,264	8,857,385
409.40 Dane County specialized transportation programs	3,483,465	3,324,930
409.99 MPO local subsidy	10,216	9,714
411.00 State cash grants and reimbursements	17,167,320	16,763,289
413.00 Federal cash grants and reimbursements	5,824,984	5,681,854
Total Eligible Revenues	49,613,096	47,704,398
EXPENSES - BY OBJECT CLASS TOTAL		
501.01 Operators' salaries and wages	13,740,168	12,903,402
501.02 Other salaries and wages	6,950,904	6,731,855
502.00 Fringe benefits	15,006,097	14,676,934
503.00 Services	605,101	579,130
504.01 Fuel and lubricants	4,419,140	4,362,412
504.02 Tires and tubes	169,875	155,337
504.99 Other materials and supplies	1,405,363	1,243,521
505.00 Utilities	603,244	732,277
506.00 Casualty and liability costs	630,666	853,952
507.00 Taxes	4,615	5,072
508.00 Purchased transportation	4,670,750	4,792,515
509.00 Miscellaneous expense	104,491	88,750
511.00 Interest expense	398,553	400,290
512.00 Leases and rentals	165,634	85,342
513.00 Depreciation	(5,427,865)	(5,430,244)
Less: Ineligible depreciation on fixed assets	5,427,865	5,430,244
516.00 Other reconciling items	768,422	752,017
Total Eligible Expenses	49,643,023	48,362,806
NET INCOME (Excluding Capital Contributions and Depreciation on Fixed Assets)	\$ (29,927)	\$ (658,408)

METRO TRANSIT SYSTEM

RECONCILIATION OF REVENUES AND EXPENSES TO WISDOT AND FEDERAL RECOGNIZED REVENUES AND EXPENSES For the Year Ended December 31, 2009

		Per WisDOT Guidelines
Revenues including subsidies and operating transfer	\$	49,613,096
Less: Non-recognized revenues		
City operating transfer	\$	9,157,264
Local public subsidies		3,142,168
Dane County specialized transportation programs		3,483,465
MPO local subsidy		10,216
Other federal subsidy		5,824,984
State operating subsidy		17,167,320
Nontransportation revenues		
Sale of buses, scrap and parts		44,173
Service charges, NSF charges, etc.		51,261
Total Non-Recognized Revenues		38,880,851
WisDOT Eligible Operating Revenues	\$	10,732,245
Total Expenses per statement including interest expense	\$	55,070,888
Add: Fixed assets eligible for operating assistance		-
Total Expenses	\$	55,070,888
Less: Non-recognized expenses		
Depreciation		5,427,865
Interest expense		398,553
Bad debts		20,000
Offset of scrap sales and miscellaneous reimbursements		95,434
Capital Maintenance Grant @ 100%		7,281,230
Leases and rentals		165,634
Interagency indirect charges without approved allocation plan (excludes MPO of \$53,058)		715,364
Total WisDOT Non-Recognized Expenses		14,104,080
WisDOT Eligible Operating Expenses	\$	40,966,808
WisDOT Recognized Deficit	\$	(30,234,563)
Less: Operating revenues ineligible for federal assistance:		
Advertising revenue		392,980
FEDERAL RECOGNIZED DEFICIT	\$	(29,841,583)

METRO TRANSIT SYSTEM

COMPUTATION OF THE DEFICIT DISTRIBUTION AMONG THE SUBSIDY GRANTORS For the Year Ended December 31, 2009

STATE FUNDS

WisDOT Recognized Deficit	<u>\$ 30,234,563</u>	
WisDOT Contract Amount	<u>\$ 17,158,400</u>	
City of Madison and Other Local Subsidies	<u>\$ 12,309,648</u>	
5 Times Operating Subsidy	<u>\$ 61,548,240</u>	
State Share - Least of the Three		<u>\$ 17,158,400</u>

FEDERAL FUNDS

Federally Recognized Deficit	<u>\$ 29,841,583</u>	
50% of Federal Deficit		<u>\$ 14,920,792</u>
Federal recognized deficit	\$ 29,841,583	
Less: State share	<u>(17,158,400)</u>	
Non-State Share		<u>\$ 12,683,183</u>
Maximum Federal Share Per Grant Award		<u>\$ 5,824,984</u>
Federal Share - Least of the Three		<u>\$ 5,824,984</u>

SUMMARY OF FUNDING (2009 only)

	<u>Received in 2009</u>	<u>Receivable 12/31/09</u>	<u>Totals</u>
Federal operating funds	\$ -	\$ -	\$ -
Federal capital maintenance	4,693,326	1,131,658	5,824,984
State funds	17,158,400	-	17,158,400
Local public subsidies	2,741,720	400,448 *	3,142,168
MPO local subsidy	10,216	-	10,216
City of Madison	<u>9,157,264</u>	<u>-</u>	<u>9,157,264</u>
Total Funding	<u>\$ 33,760,926</u>	<u>\$ 1,532,106</u>	<u>\$ 35,293,032</u>

* Shown net of amount due to other communities of \$95,111.